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FILED  
APR 07 2006

DEPARTMENT OF MANAGED HEALTH CARE  
By Susan Ball  
Filing Clerk

10 BEFORE THE DEPARTMENT OF MANAGED HEALTH CARE  
11 OF THE STATE OF CALIFORNIA

13 IN THE MATTER OF:

14 Santa Cruz – Monterey Managed Medical  
15 Care Commission dba Central Coast  
16 Alliance for Health

17 Respondent.  
18  
19

) DMHC No.: 06-125

) OAH No.:

) **CEASE AND DESIST ORDER AND  
NOTICE OF RIGHT TO HEARING**

) (Health and Safety Code section 1375.1;  
California Code of Regulations, title 28,  
section 1300.75.1(a))

20 **TO: SANTA CRUZ-MONTEREY**  
21 **MANAGED MEDICAL CARE COMMISSION**  
22 **DBA CENTRAL COAST ALLIANCE FOR HEALTH**  
23 **1600 GREEN HILLS ROAD**  
**SCOTTS VALLEY, CALIFORNIA 95066**

24 The Director of the Department of Managed Health Care, by and through her  
25 designee, Assistant Deputy Director Amy L. Dobberteen, after investigation, determines as  
26 follows:

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I.

INTRODUCTORY STATEMENT

1. Santa Cruz-Monterey Managed Medical Care Commission (Santa Cruz or the Plan) is now, and has been since June 20, 2000, a full service health care plan (File No. 933-0401) licensed pursuant to Health and Safety Code section 1353. Santa Cruz's principal place of business is located at 1600 Green Hills Road, Scotts Valley, California 95066. Santa Cruz is subject to the Knox-Keene Health Care Service Plan Act of 1975, as amended, ("Knox-Keene Act" (Health and Safety Code section 1340 et. seq.)), and Title 28 of the California Code of Regulations (the Code of Regulations) promulgated pursuant to the Knox-Keene Act.

II.

STATUTORY AUTHORITY

2. The Director is vested with the responsibility to administer and enforce the Knox-Keene Act. The intent and purpose of the Knox-Keene Act is to promote the delivery and quality of health and medical care to the people of California who enroll in a health care service plan. (Health & Safety Code section 1342.)

3. Health and Safety Code section 1375.1(a) states in relevant part, "[e]very plan shall have and shall demonstrate to the director that it has all of the following: (1) a fiscally sound operation and adequate provision against the risk of insolvency."

4. California Code of Regulations, title 28, section 1300.75.1(a), states in relevant part:

A plan shall demonstrate fiscal soundness and assumption of full financial risk as follows: (1) Demonstrate through its history of operations and through projections (which shall be supported by a statement as to the facts and assumptions upon which they are based) that the plan's arrangements for health care services and the schedule of its rates and charges are financially sound, and provide for the achievement and maintenance of a positive cash flow, including provisions for retirement of existing and proposed indebtedness. (2) Demonstrate that its working capital is adequate, including provisions for contingencies. (3) Demonstrate an approach to

1 the risk of insolvency which allows for the continuation of  
2 benefits for the duration of the contract period for which  
3 payment has been made . . .

4 5. The Director is empowered to enforce compliance with the Knox-Keene Act  
5 by Health and Safety Code section 1391(a)(1), which provides in relevant part:

6 The director may issue an order directing a plan, solicitor  
7 firm, or any representative thereof, a solicitor, or any other  
8 person to cease and desist from engaging in any act or  
9 practice in violation of the provisions of this chapter, any rule  
adopted pursuant to this chapter, or any order issued by the  
director pursuant to this chapter.

### 10 III.

#### 11 STATEMENT OF FACTS

12 6. On December 19, 2005, the Department of Managed Health Care (the  
13 Department) began a routine examination of Santa Cruz. That examination is still in process.

14 7. During the examination, the Department reviewed Santa Cruz's risk sharing  
15 arrangements with its providers.

16 8. Section c(7) of Santa Cruz's risk sharing agreement states that a risk share  
17 surplus distribution will be paid provided that the Risk Group Risk Sharing Pool total is in  
18 surplus.

19 9. In 2004, Santa Cruz posted net income of \$4,769,255.

20 10. In 2004, Santa Cruz's overall surplus distribution was not in surplus, but was  
21 in deficit.

22 11. Despite this deficit, in April 2005, Santa Cruz paid to its providers a surplus  
23 distribution of approximately \$4,800,000.

24 12. Santa Cruz has posted a net loss of \$12,246,973 for 2005.

25 13. Santa Cruz's overall surplus distribution is in deficit for 2005.

26 14. For the last thirteen (13) months, through January 2006, Santa Cruz has been  
27 losing money at the rate of approximately \$1 million a month.  
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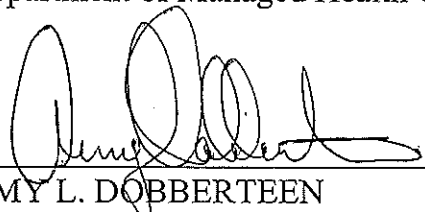
1 surplus distribution risk share payout for 2005 to its providers. Approval from the  
2 Department of Managed Health Care may be sought by submitting a written request via  
3 facsimile to Mr. Wright at (916) 445-8399 upon determination by the Plan that it is fiscally  
4 sound, whereby the Plan may request that the Department withdraw this Order.

5 This Order shall be effective immediately and shall continue in full force and effect  
6 until further Order of the Director.

7 Dated: April 7, 2006

8  
9 LUCINDA EHNES, Director  
10 Department of Managed Health Care

11  
12 By:

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14 AMY L. DOBBERTEEN  
15 Assistant Deputy Director  
16 Department of Managed Health Care  
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